

**REPORT OF THE AUDIT OF THE
JESSAMINE COUNTY
CLERK**

**For The Year Ended
December 31, 2004**



**CRIT LUALLEN
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable William Neal Cassity, Jessamine County Judge/Executive
Honorable Eva L. McDaniel, Jessamine County Clerk
Members of the Jessamine County Fiscal Court

The enclosed report prepared by Moore Stephens Potter, LLP, Certified Public Accountants, presents the statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Jessamine County, Kentucky, for the year ended December 31, 2004.

We engaged Moore Stephens Potter, LLP to perform the audit of this statement. We worked closely with the firm during our report review process; Moore Stephens Potter, LLP evaluated the Jessamine County Clerk's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE JESSAMINE COUNTY CLERK

**For The Year Ended
December 31, 2004**

Moore Stephens Potter, LLP has completed the Jessamine County Clerk's audit for the year ended December 31, 2004. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees due to the Fiscal Court decreased by \$1,787 from the prior year, resulting in excess fees due to the Fiscal Court of \$653,474 as of December 31, 2004. Revenues increased by \$967,331 from the prior year and expenditures increased by \$969,118.

Report Comment:

- The County Clerk's Office Lacks Adequate Segregation Of Duties

Deposits:

The County Clerk's deposits were insured and collateralized by bank securities or bonds.

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MOORE STEPHENS POTTER LLP

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS ADVISORS

The Honorable William Neal Cassity, Jessamine County Judge/Executive
Honorable Eva L. McDaniel, Jessamine County Clerk
Members of the Jessamine County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Jessamine County, Kentucky, for the year ended December 31, 2004. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2004, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated July 13, 2005, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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Members in principal cities throughout the world*

The Honorable Wm. Neal Cassity, Jessamine County Judge/Executive
Honorable Eva L. McDaniel, Jessamine County Clerk
Members of the Jessamine County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The County Clerk's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Jessamine County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Moore Stephens Potter, LLP".

Moore Stephens Potter, LLP

Audit fieldwork completed -
July 13, 2005

JESSAMINE COUNTY
EVA L. MCDANIEL, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2004

Revenues

State Fees For Services	\$ 17,313
Fiscal Court	23,977
Fiscal Court - Expense Account	65,350

Licenses and Taxes:

Motor Vehicle -

Licenses and Transfers	\$ 1,447,089	
Usage Tax	8,812,390	
Tangible Personal Property Tax	3,153,955	
Motor Vehicle Lien Releases	12,365	
Notary Fees Motor Vehicles	8,536	
Child Victim Fund	91	
Licenses -		
Fish and Game	2,545	
Marriage	12,338	
Occupational	75	
Deed Transfer Tax	289,785	
Delinquent Taxes	<u>618,345</u>	14,357,514

Fees Collected for Services:

Recordings -

Deeds, Easements, and Contracts	35,813	
Real Estate Mortgages	130,163	
Chattel Mortgages and Financing Statements	135,185	
Powers of Attorney	3,751	
Wills, Estate Settlements, and Accom.	846	
Releases	42,225	
Liens and Lis Pendens	7,102	
Leases	209	
Bail Bonds	462	
All Other Recordings	<u>8,466</u>	364,222

The accompanying notes are an integral part of this financial statement.

JESSAMINE COUNTY
 EVA L. MCDANIEL, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2004
 (Continued)

Revenues (Continued)

Charges for Other Services -		
Candidate Filing Fees	\$ 1,140	
Copywork	15,027	
Postage	<u>6,161</u>	\$ 22,328
Other:		
Refunds and Overpayments	27,218	
Funds Loaned from the 2003 Fee Account	17,891	
Transferred Funds Repaid from the 2005 Fee Account	4,053	
Miscellaneous	<u>2,404</u>	51,566
Interest Earned		<u>11,833</u>
Total Revenues		<u>14,914,103</u>

Expenditures

Payments to State:		
Motor Vehicle -		
Licenses and Transfers	1,090,725	
Usage Tax	8,510,482	
Tangible Personal Property Tax	1,186,630	
Licenses, Taxes, and Fees -		
Fish and Game	2,487	
Delinquent Tax	81,456	
Legal Process Tax	<u>43,145</u>	10,914,925
Payments to Fiscal Court:		
Tangible Personal Property Tax	243,504	
Delinquent Tax	40,292	
Deed Transfer Tax	<u>275,295</u>	559,091

The accompanying notes are an integral part of this financial statement.

JESSAMINE COUNTY
 EVA L. MCDANIEL, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2004
 (Continued)

Expenditures (Continued)

Payments to Other Districts:

Tangible Personal Property Tax	\$ 1,595,482	
Delinquent Tax	<u>337,535</u>	\$ 1,933,017

Payments to Sheriff		4,341
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Payments to County Attorney		104,315
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Operating Expenditures:

Personnel Services -

Deputies' Salaries and Benefits	485,864	
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Other Charges -

Office Supplies	16,078	
Conventions and Travel	7,704	
Printing Tax Bills	5,739	
Insurance and Bonds	1,408	
Refunds	79,058	
Postage	21,132	
Phone	2,788	
Miscellaneous	<u>966</u>	620,737

Capital Outlay:

Equipment and Software Lease		21,334
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Loaned Funds Repaid to the 2003 Fee Account		17,891
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Funds Transferred to the 2005 Fee Account		<u>4,053</u>
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Total Expenditures		<u>14,179,704</u>
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JESSAMINE COUNTY
EVA L. MCDANIEL, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2004
(Continued)

Net Revenues		\$	734,399
Less: Statutory Maximum			<u>74,232</u>
Excess Fees			660,167
Less: Expense Allowance	\$	3,600	
Training Incentive Benefit		<u>3,093</u>	<u>6,693</u>
Excess Fees Due Fiscal Court			653,474
Payment to Fiscal Court - March 14, 2005			<u>643,828</u>
Balance Due Fiscal Court		\$	<u><u>9,646</u></u>

The accompanying notes are an integral part of this financial statement.

JESSAMINE COUNTY
EVA L. MCDANIEL, COUNTY CLERK
NOTES TO FINANCIAL STATEMENT

December 31, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the Fiscal Court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 134.310 requires the County Clerk to settle excess fees with the Fiscal Court at the time she files her final settlement with the Fiscal Court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2004 services
- Reimbursements for 2004 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2004

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the Fiscal Court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

JESSAMINE COUNTY
EVA L. MCDANIEL, COUNTY CLERK
NOTES TO FINANCIAL STATEMENT
December 31, 2004
(Continued)

Note 2. Employee Retirement System

The County officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.00% of their salary to the plan. The County's contribution rate for nonhazardous employees was 7.34% for the first six months of the year and 8.48% for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2004, the County Clerk's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the County Clerk's agent in the County Clerk's name, or provided surety bond which named the County Clerk as beneficiary/obligee on the bond.

Note 4. Leases

The office of the County Clerk is committed under a 60-month lease agreement with Software Management, Inc. for a software package and related computer hardware. The lease agreement requires a monthly payment of \$6,302 (the monthly lease payment decreases to \$6,077 effective with the November 2005 payment) through September 13, 2009. The lease agreement may automatically renew for additional one-year terms unless a written notice to the contrary is received from either party 60 days prior to the renewal date. The total remaining balance under the lease agreement is approximately \$349,000 as of December 31, 2004.

COMMENT AND RECOMMENDATION

JESSAMINE COUNTY
EVA L. MCDANIEL, COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2004

STATE LAWS AND REGULATIONS:

None.

INTERNAL CONTROL - REPORTABLE CONDITIONS:

The County Clerk's Office Lacks Adequate Segregation Of Duties

We recognize the extent of segregation of duties is a judgment established by management. We also recognize this judgment is affected by certain circumstances beyond the elected official's control such as functions prescribed by statutes and regulations, and by budgetary constraints. Due to limited staff, a proper segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We believe this reportable condition as described above is not a material weakness.

We recommend the County Clerk establish a proper segregation of duties over her operations. In order to offset this internal control weakness, the Clerk should assign duties to another deputy/employee. Duties that should be segregated include preparing deposits, reconciling bank statements, opening mail, and preparing and distributing checks. The other deputy/employee should document performing these duties by initialing and dating such documentation.

County Clerk's Response: Clerk does have assigned duties for deputies. Preparing deposits-bookkeeper & Clerk; Reconciling bank statements-bookkeeper & Clerk; Open mail-Clerk & one deputy; Preparing & Distributing checks-Clerk & bookkeeper.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

PRIOR YEAR:

The County Clerk Clerk Receives A Lump Sum Budget Allotment From The Fiscal Court For Expenses

The Clerk receives a fiscal year-based budget allotment from the Jessamine County Fiscal Court to cover operating expenses. During 2003, these funds were deposited into a bank account separate from the fee account (the "expense account"). It was the County Clerk's belief that a separate bank account from the fee funds provides a better paper trail for the audit, the funds are easier to budget for, and the receipts and disbursements are able to better accounted for within a separate bank account. Ultimately, the receipts and disbursements relative to this separate account were not posted to the fee account receipts or disbursements ledgers for 2003 and adjustments had to be proposed during the audit to record the activity within the bank account.

JESSAMINE COUNTY
EVA L. MCDANIEL, COUNTY CLERK
COMMENT AND RECOMMENDATION
For The Year Ended December 31, 2004
(Continued)

PRIOR YEAR: (Continued)

The County Clerk Clerk Receives A Lump Sum Budget Allotment From The Fiscal Court For Expenses (Continued)

In 2004, the Clerk received a total of approximately \$65,000 from the Jessamine County Fiscal Court relative to its 2004 fiscal-year based budget allotment and again deposited these funds in a separate bank account. For the fiscal year ended December 31, 2004, all of these funds were expended on operating expenses, with the exception of \$4,053 which the Clerk transferred to her 2005 fee account. Accordingly, an audit adjustment was proposed to include the \$4,053 within the excess fees due to the Jessamine County Fiscal Court for 2004.

Ultimately, the Clerk's office did post all of the receipts and disbursements relative to the "expense account" to the 2004 fee account receipts and disbursements ledgers. We recommend, however, that the Clerk's office treat the unexpended "expense account" funds in the same manner it is required to treat its excess fee account funds (unexpended amounts are remitted to the Fiscal Court). Therefore, the Clerk should reimburse the 2004 fee account in the amount of \$4,053. These funds should then be remitted to the Fiscal Court as a part of excess fees for 2004.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



MOORE STEPHENS POTTER LLP

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS ADVISORS

The Honorable William Neal Cassity, Jessamine County Judge/Executive
Honorable Eva L. McDaniel, Jessamine County Clerk
Members of the Jessamine County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Jessamine County Clerk for the year ended December 31, 2004, and have issued our report thereon dated July 13, 2005. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Jessamine County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comment and recommendation.

- The County Clerk's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

Report On Internal Control Over Financial Reporting And On Compliance
And Other Matters Based On An Audit Of The Financial Statement
Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Jessamine County Clerk's financial statement for the year ended December 31, 2004, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

Moore Stephens Potter, LLP

Moore Stephens Potter, LLP

Audit fieldwork completed -
July 13, 2005



